BIBBY
SHIP MANAGEMENT

Media coverage

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The battle for Offshore

The battle for India's Great Offshore (see p23), which has seen Bharati and ABG shipyards wooing minority shareholders as they work towards a controlling 26% stake, reveals much about the country's maritime sector.

India's offshore industry is undeveloped compared to other parts of the world, according to Prakash Agarwal, MD of Bibby Ship Management (India). However, the industry's ability to service rapid growth in oil exploration is being held back.

"The recent result of the Indian general election promises political stability and we have already seen foreign investors commit to continued long-term investment in India as a result," commented Agarwal. "It also affords us much-needed breathing space for the maritime industry, government and exploration companies to put in place long-term plans for success."

The main issue is lack of regulation for the offshore sector. India's shipping industry and oil companies have been at loggerheads for some time over legislation on chartering offshore support vessels. However, lack of understanding of the regulations needed and the delay in implementing them has denied the benefits that could accrue to the Indian offshore industry immediately as well as over the long term.

"The [shipping] industry is already working hard to support offshore exploration with expertise and services. A key natural advantage which we have built on has been our pool of educated seafarers, who are showing their appetite for developing their skills further," said Agarwal. Testament to this has been the great demand for DP training courses since Bibby opened its Mumbai training facility, with more than 1,000 mariners graduating in less than three years.

India has already invested heavily to develop a professional pool of manpower and expertise for the young offshore industry, but this good work could be severely damaged unless a solid regulatory framework is put in place. Lack of suitable regulation would make it much harder for Indian operators to compete head-to-head with companies from other, more established, maritime nations.

Agarwal points out that while these regulatory moves might be seen as protectionist, they are more realistic for a global industry such as shipping. "It is in the interests of all participants in Indian offshore exploration to provide high-quality offshore support services locally, affording them cost economies and simpler logistics.

"Naturally, we must fulfil our side of the bargain by providing the necessary resources and investment in our skills and capabilities."

Most of Bibby's students have funded their own education, a fact which hints at the hunger of Indian seafarers for professional skills and knowledge. However, it also highlights the fact that few operators are willing to invest in their own workforces and sponsor their staff to complete professional training.

Unless there is a change of attitude, said Agarwal, India's offshore sector will be left behind. The process begins with co-operation and leadership at an industry level, as well as support from the Ministry of Shipping.

"Technical services is one area where the industry must help itself. We already provide third-party technical services to several foreign companies, who are only too glad to be relieved of the need to 'fly-in' their in-house operations. However, for this to continue, operators must drive up standards and create a self-supporting technical management industry in which all operators can trust."

Why are Bharati and ABG so keen to become involved in an industry lacking regulation or government support, which is under threat from foreign competitors? Both see Great Offshore as a strategic fit because the offshore operator would bring long-term charter hire contracts with Oil and Natural Gas Corp, Reliance Industries, Gujarat State Petroleum Corp and other oil companies.

The holy grail is "stable cash flow that would be unaffected by the economic environment," a *livemint.com* report explained. "In contrast, shipyards are starved of regular cash flow as 30% of their [revenue] comes from the government in the form of subsidy."

Although in February this year the cabinet committee on economic affairs cleared the proposal of payment of 30% subsidy on ships contracted up to August 2007, "no money has yet been received".

Other reports, including *hindubusinessline.in*, quote Kapil Yadav, research analyst with Dolat Capital, who observed that the offshore oil service sector was viewed as lucrative for shipbuilders as part of their "backward integration initiative".

At a time of uncertainty for global shipbuilding, builders see great benefit from tying themselves into the rapidly growing offshore sector.

This week the Securities and Exchange Board of India was expected to clear the open offers for Great Offshore, and fix the time for opening and closing of offers. This process had not been completed as *Fairplay* went to press.

Great Offshore Group fleet:

AHTS: 15
Crew/supply vessel: 1
OSV: 5
PSV: 7
Tug: 18
Jack-up rig: 1
Drill barge: 1
On order: 1 OSV and 1 AHTS; 1 jack-up rig; 2 semi-submersible rigs

Source: Lloyd's Register Fairplay

Two of India's shipyards are fighting for control of Great Offshore's regular cash flow

Photo: E. Vroom

New direction for Mercantile Shipping

Mercantile Shipping Company of Sri Lanka, in which a 49% stake is held by Bremen's Reederei Eugen Friederich and DEG of Cologne, is rebuilding its fleet, once the largest in the island. To date it has operated only second-hand ships but now it is charting a new growth path by selling its older ships and opting for newbuildings.

It has sold or scrapped all except one of its nine ships to save on high maintenance costs and in July took delivery of a 7,800dwt self-geared multi-purpose cargo ship from Bodewes shipyard in the Netherlands. The second vessel in the series is to be delivered in November from the same yard. The hulls for both vessels were built in the Ukraine.

Mercantile officials said multi-purpose ships have not been as badly affected by the slump in trade and over-supply as container ships and bulk carriers.

Mercs Uva flies the Sri Lankan flag. According to MD Thomas Kriwat, it is the first newbuilding for a private company in Sri Lanka and the first new vessel in the country's fleet for more than 25 years.

The new vessels were financed through a grant from the Dutch government, a €16M ($23M) loan from Germany's Bremer Landesbank and internal funds.

Crew for the new vessels will be managed by group subsidiary Mercantile Marine Management. The sole remaining older ship, *Safmarine Soyo*, has been chartered out at a lower rate. "The charter of *Soyo* was extended with Safmarine and still runs within West and South Africa," general manager Stephan Kuehl told *Fairplay*.

Some Mercantile ships plied the coastal route to the northern Jaffna peninsula when it was cut off from the mainland by Tamil Tiger rebels. The need for ships has fallen since the land route has been reopened following the defeat of the Tigers.

One ship, *Mercs Ruhunu*, damaged in a Sea Tiger naval wing suicide boat attack off Jaffna, was sold for scrap in February 2009 for 49M Sri Lanka rupees ($427,000).

For the first quarter of 2009-10, the company reported net profit of 3.6M Sri Lanka rupees, based solely on chartering overseas with no voyages in Sri Lankan waters.

This was down 71% year-on, when profit from local business made a substantial contribution. Revenue halved to 73M Sri Lanka rupees.

In June, the company reported a loss of 80M Sri Lanka rupees for the year ending 31 March 2009 and revenue down 13%. A voluntary retirement scheme was offered to workers at that time.

COMPANY PROFILE:

Full company name: Mercantile Shipping Company plc
Established: 1981
Headquarters: Colombo, Sri Lanka
Listed: Colombo Stock Exchange
Share price: 52-week high LKR119.50 ($1.04); low LKR75
Latest financial result: 1Q09 net profit LKR3.6M; turnover LKR73M

Company shorts

STOLT-NIELSEN CHAIRMAN RETIRES

JACOB Stolt-Nielsen, the founder-chairman of Stolt-Nielsen, Norway's transport shipping company, is stepping down at the end of 2009. He will retire on 15 December – the 50th anniversary of the company he started. His successor is Christer Olsson, vice-chairman of Wallenius Lines, who has been an S-N director for the past six years. Olsson is also a director of Translantic, Atlantic Container Line, United European Car Carriers and Singapore Shipping.

APM SEEKS WIGGLE ROOM

IN A move to improve flexibility for possible acquisitions, Danish giant AP Møller-Mærsk said it will seek to raise $1.8Bn from investors from a share placement. The sale involves an accelerated book-building process open to existing and new institutional investors, Reuters reported. The group intends to sell up to 250,340B shares (about 5.7% of its share capital) now held as treasury stock.

EASTWIND PUSHES SHIP SALES

EASTWIND Maritime debtor ProBulk is seeking court approval to abandon three ships and sell a fourth as the company looks to pay off its debts in bankruptcy court. Eastwind's trustee Salvatore LaMonica wants to abandon *Cook*, *Jackson* and the reefer ship *Matterhorn*. ProBulk is also seeking approval from the court to sell the reefer ship *Snowmass* to Cantare Shipping for $900,000.

'K' LINE SEALS CHINA ORE DEAL

'K' LINE has completed a iron ore transport contract with Chinese steelmaker Anshan Iron & Steel. The 10-year accord will start in October and will use 170,000dwt ships to transport about 1.5M tonnes of ore a year from Australia to Anshan's blast furnace at Yingkou on the shore of Liaodong Bay.